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RUEHBU/AMEMBASSY BUENOS AIRES 1282
RUEHGE/AMEMBASSY GEORGETOWN 0183
RUEHKG/AMEMBASSY KINGSTON 0380
RUEHLP/AMEMBASSY LA PAZ 2090
RUEHPE/AMEMBASSY LIMA 0335
RUEHBH/AMEMBASSY NASSAU 0103
RUEHPO/AMEMBASSY PARAMARIBO 0704
RUEHPU/AMEMBASSY PORT AU PRINCE 0156
RUEHSP/AMEMBASSY PORT OF SPAIN 3186
RUEHQT/AMEMBASSY QUITO 2174
RUEHSG/AMEMBASSY SANTIAGO 3585
RUEHDG/AMEMBASSY SANTO DOMINGO 0243
RUEHUB/USINT HAVANA 0781
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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001712

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 11/25/2015
TAGS: [EPET](#) [ENRG](#) [EINV](#) [VE](#)
SUBJECT: UPDATE ON PETROCARIBE

REF: A. 2005 CARACAS 03560

- [1](#)B. 2005 CARACAS 03594
- [1](#)C. PAP 856
- [1](#)D. 2005 BELIZE 00952
- [1](#)E. PAP 971
- [1](#)F. CARACAS 1238
- [1](#)G. PARAMARIBO 00343

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: During the past seven months, the BRV appears to have focused on building institutions such as joint venture companies to support the Petrocaribe initiative (Reftel A). Shipments of oil still appear to be relatively few in number. Although the lines between various BRV initiatives such as Petrocaribe and Petroamerica have always been blurred (Reftel B), the BRV has clearly been linking Petrocaribe to its Bolivarian Alternative for the Americas (ALBA), a trade agreement/Latin American integration project that was created on December 14, 2004 in opposition to the FTAA. END SUMMARY

BUILDING PETROCARIBE INSTITUTIONS

[1](#)2. (C) Petrocaribe is composed of 14 countries (including Venezuela) that signed the Petrocaribe Energy Cooperation Agreement on June 29, 2005 as well as Haiti, which signed the agreement on May 14, 2006 (Reftel C). Signatories to the agreement are provided generous financing terms when they purchase oil and petroleum products from Venezuela and have

the option of making partial payment in goods and services (Reftel A). State entities importing oil under Petrocaribe have a two year grace period and a 17 year timetable for repayment at a two percent interest rate when the price of oil is below USD 40 per barrel. When the price of oil is above USD 40 the payment period is 25 years and the interest rate drops to one percent. The initiative also contains a social development component. As part of the initiative, the BRV has created the AlbaCaribe Fund. The fund, with initial capital of 50 million USD provided by Venezuela, will finance social and economic programs in Petrocaribe countries. The fund's capital will be augmented by the issuance of financial instruments, contributions based on a percentage of petroleum sale financing under Petrocaribe, and "savings produced by direct hydrocarbon commerce". Details on the actual state of the fund are not available and we cannot confirm that any disbursements have been made. (COMMENT: The BRV is notoriously slow and incompetent at delivering results through similar programs in Venezuela. END COMMENT)

13. (U) Under Petrocaribe, Venezuela will only deal directly with state entities, rather than the private sector. In order to carry out its commitments under Petrocaribe, PDVSA, the Venezuelan state oil company, has created an affiliate, PDV Caribe. PDVSA Vice President for Refining Alejandro Granado serves as PDV Caribe president. PDV Caribe is charged with creating a shipping network as well as increasing members' storage, refining, and distribution capacities. PDVSA claims it has sufficient shipping capacity to meet its Petrocaribe obligations and that Petrocaribe members will only be charged the actual costs of shipping.

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14. (U) PDV Caribe has recently begun forming joint venture companies with member states. PDV Caribe and Belize Petroleum and Energy Limited, the state oil company of Belize, signed an agreement on June 9, 2006 to form a joint venture called ALBA PetroCaribe (Belize Energy) Ltd. which will handle fuel shipment to Belize. PDV Caribe will have a 55 percent equity stake in the company with Belize Petroleum holding the remainder. The joint venture will handle shipments of crude oil, refined products, and liquefied petroleum gas at the equivalent level of 4,000 barrels of oil per day. PDV Caribe also indicated that it would assist Belize with the construction of a 50,000 barrel storage facility and improved port facilities. Granado was quoted on the PDVSA website as stating PDVSA is considering the possibility of processing crude oil in Belize. Granado noted Belize produces 2,500 barrels of crude oil per day, which covers 85 percent of its needs, but does not have any processing facilities.

15. (U) PDV Caribe officials met with officials of St. Kitts and Nevis on June 8, 2006 to discuss the formation of a joint venture between the two countries. The parties will meet again on June 27. PDVSA is also in negotiations with Dominica to form a joint venture.

16. (U) Granado and a team of PDV Caribe officials also met with officials from Antigua and Barbuda on June 8 to discuss the formation of a joint venture. Granado said Antigua and Barbuda is being considered as a storage and distribution point for the Petrocaribe system. The proposal will be discussed at an energy minister's meeting to be held on June 14 in Dominica. Energy ministers from Dominica, Antigua and Barbuda, Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines are scheduled to attend.

17. (U) Finally, Venezuela has created several entities with Cuba in order to further Petrocaribe. PDVSA-Cuba, PDVSA's office in Cuba, has been charged with furthering energy cooperation between the two countries. In addition, a joint venture, PDSVA-Cupet, has been formed to upgrade the Cienfuegos refinery (Reftel A). PDVSA-Cupet is a joint venture between PDVSA Cuba and Commercial Cupet, an affiliate

of Union Cubana de Petroleo. PDVSA-Cupet's goal is to produce 15,000 barrels of gasoline, 14,000 barrels of diesel, 7,000 barrels of jet fuel, 33,000 barrels of fuel oil and 1,000 barrels of liquefied petroleum gas per day. On April 30, 2006 the director general of PDVSA Cuba and representatives of the Cuban firm Internacional Maritima S.A. signed an agreement forming TransALBA, a shipping company that is charged with integrating shipping within Petrocaribe. TransALBA will initially be based in Havana but there are plans to open branches in various Caribbean countries. Cuba and Venezuela have also formed a company called Ferrolaza that will develop railway infrastructure throughout Latin America. Finally, President Chavez stated in a press conference at the signing of the ALBA accords, whose centerpiece was an FTA between Cuba, Venezuela, and Bolivia, on April 29, 2006 in Havana, that Venezuela and Cuba would create a supertanker base at the Matanzas terminal in Cuba and would jointly operate the base.

PETROCARIBE SHIPMENTS

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18. (U) It is our understanding that Venezuela has made shipments under Petrocaribe to Belize (Reftel D), Haiti (Reftel E), and Dominica as well as regular shipments to Cuba. Venezuela sent a shipment of 60,000 barrels of diesel and 40,000 barrels of gasoline to Haiti under the standard Petrocaribe financing terms (Reftel A). Part of the diesel shipment, however, was a donation. In addition, Venezuela will donate 120 tons of asphalt to Haiti each month for twelve months. On June 7, 2006 Dominica received its first shipment of 1,200 barrels of asphalt under Petrocaribe. Dominica is scheduled to receive asphalt shipments on a quarterly basis.

19. (C) COMMENT: We are not aware of any additional shipments under the terms of Petrocaribe but we assume that at least some shipments are occurring. Venezuela was shipping oil to various members of Petrocaribe under the terms of the San Jose and Caracas accords. For example, the Dominican Republic was receiving 50,000 barrels of oil per day under the two agreements and is supposed to be receiving 54,000 barrels per day under Petrocaribe. Obviously, Venezuela has committed to ship oil to all of the Petrocaribe members on a regular basis. For example, Jamaica has a supply agreement with Venezuela for 21,000 barrels a day of oil and products. What is not clear to us is whether the shipments are occurring in a timely manner. Given PDVSA's long list of administrative and managerial problems (Reftel F), it would not surprise us if it was having great difficulty in meeting its obligations. As we noted in Reftel A, shipping has not been one of PDVSA's strong points. END COMMENT

COMMENT

110. (C) A cursory review of PDVSA press releases and President Chavez's speeches clearly show that the BRV regards Petrocaribe as a key component in ALBA, its grandiose trade agreement/integration scheme for Latin America and Caribbean. It is no accident that Petrocaribe joint ventures contain ALBA in their names. Although Petrocaribe is the most developed part of the Petroamerica continental energy initiative, the question, as always with BRV schemes, is whether the BRV has the human capital, persistence, and wherewithal to actually execute its plans. The BRV is infamous for announcing sweeping, dramatic new initiatives which never go anywhere. It is hard to imagine how PDVSA will be able to properly staff the plethora of Petrocaribe joint ventures when it has serious staffing problems and declining oil production at home. In addition to human capital constraints, the BRV is increasingly relying on PDVSA to both fund and carry out a long list of social development

projects, at home and abroad. These limitations are further exacerbated by PDVSA and the BRV's use of hardball tactics whenever they do not get their way (Reftel G). Given its current muddled operating state and competing interests for its time and money, it is hard to see PDVSA devoting the type of resources to Petrocaribe to fully meet its burgeoning obligations in a professional manner.

WHITAKER